

Agenda

Thursday 11 January 2024, 9.30am
Audit Scotland offices, 102 West Port,
Edinburgh, and online via Microsoft Teams
506th meeting of the Accounts Commission

1. Apologies for absence
 2. Declaration of connections
 3. Order of business
The Chair seeks approval of business, including proposing taking items 9 to 14 in private for the reasons set out on the agenda.
-

Business requiring decisions in public

4. Minutes of meeting of 14 December 2023 Secretary
 5. Statutory report – School accommodation for Dargavel Controller of Audit
 6. Best Value in Orkney Islands Council Controller of Audit
-

Business for information in public

7. Local government policy update report Secretary
-

Any other public business

8. Any other public business Chair
The Chair will advise if there is any other public business to be considered by the Commission.
-

Business for information in private

9. Chair's update – verbal update Chair
 10. Controller of Audit's update – verbal update Controller of Audit
-

Business requiring decisions in private

11. Statutory report – School accommodation for Dargavel Controller of Audit

[Item to be taken in private as it requires the Commission to consider confidential policy matters.]

12. Best Value in Orkney Islands Council

[Item to be taken in private as it requires the Commission to consider confidential policy matters.]

Controller of Audit

13. Stakeholder research

[Item to be taken in private as it requires the Commission to consider confidential policy matters.]

Director of Innovation
and Transformation,
and Communications
Manager

Any other private business

14. Any other private business

[Item may be required if there are any confidential matters that require to be discussed out with the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers.]

Minutes and matters arising from previous meeting

Secretary to Accounts Commission

Item 4
Meeting date: 11 January 2024

Purpose

1. This paper presents for the Commission's approval the draft minutes of the previous meeting of the Commission along with a summary of matters arising from those minutes.

Recommendations

2. The Commission is asked to:
 - Approve the attached draft minute of its previous meeting.
 - Consider any matters arising from the draft minute.

Minutes

3. The minute of the previous meeting is in Appendix 1.
4. Members should note that the action tracker – available on the member SharePoint site and provided to members monthly – provides updates on progress from previous meetings.

Minutes

Thursday 14 December 2023, 9.30am

Audit Scotland offices, 102 West Port, Edinburgh, and
online via Microsoft Teams

505th meeting of the Accounts Commission

Present:

Ronnie Hinds (Interim Chair)
Malcolm Bell
Nichola Brown
Andrew Burns
Andrew Cowie
Carol Evans
Jennifer Henderson
Christine Lester
Angela Leitch
Ruth MacLeod (Apologies for items 13-18)
Mike Neilson
Derek Yule

In attendance:

Allan Campbell, Secretary to the Accounts Commission
Helena Gray, Controller of Audit
Fiona Mitchell Knight, Audit Director, Audit Services (items 6 and 13)
Corrinne Forsyth, Audit Manager, Performance Audit and Best Value (items 6 and 13)
Peter Lindsay, Senior Audit Manager, Audit Services (items 6 and 13)
Brian Howarth, Audit Director, Audit Services (item 7)
Antony Clark, Executive Director of Performance Audit and Best Value (items 8, 14 and 15)
Mark Taylor, Audit Director, Performance Audit and Best Value (item 8)
Carol Calder, Audit Director, Performance Audit and Best Value (item 14)
Lucy Jones, Audit Manager, Performance Audit and Best Value (item 14)
Blyth Deans, Senior Manager, Performance Audit and Best Value (item 14)
Vicki Bibby, Chief Operating Officer (items 16 and 17)
John Cornett, Executive Director of Audit Services (items 16 and 17)
Stuart Dennis, Corporate Finance Manager (item 17)

1. Apologies for absence

Apologies for absence submitted for items 13-18 for Ruth MacLeod.

2. Declaration of connections

The following declarations of connection were noted:

Malcolm Bell declared an interest in Item 7 (Shetland BVAR update). Malcolm advised he was Convener of Shetland Islands Council for 10 years until May 2022. This included the period when the last Best Value audit work referred to in this report was carried out. For those reasons and taking into account the provisions of section 3.38 of the Accounts Commission Code of Conduct (within two years of holding a senior position in an audited

body) Malcolm stated he would take no part in consideration of this item and would leave the room for its duration.

3. Order of business

It was agreed that the following items be considered in private:

- Items 11 to 18, as they required the Commission to consider confidential policy matters.

4. Minutes of meeting of 9 November 2023

The Commission considered a report by the Secretary presenting the minutes of the meeting of 9 November 2023, including a summary of business arising from the minutes.

It was highlighted that some of the suggested amendments to Item 15 (Partnership Working Framework) were not incorporated in the version of the minutes that had been shared as part of the papers for this meeting. This was due to an administrative error; the correct version of the minutes was issued to members shortly after the meeting and added to the meeting papers published on the Accounts Commission website.

With no further comments, the minutes of the meeting were otherwise approved as a correct record.

5. Minutes of November Committee meetings

The Commission considered a report by the Secretary presenting the minutes of the Committees on 23 November 2023, including a summary of business arising from the minutes.

With no comments, the minutes of the meetings were approved as a correct record.

6. Best Value Report: Dumfries and Galloway Council

The Commission considered a report by the Controller of Audit on Best Value in Dumfries and Galloway Council.

During discussion,

- The Controller of Audit introduced the report, outlining the main points including in relation to the Council's financial planning, performance reporting and leadership structure, and its new Council Plan, published in February 2023.
- The council's performance reporting was discussed in detail. The audit team explained that the council does report performance at service level internally twice a year, but it does not publish a council-wide strategic overview or summary of that performance. Council officers do also carry out analysis of performance using the Local Government Benchmarking Framework, but officers do not report that analysis to elected members and have not done so since 2020.
- The council's approach to financial planning was also discussed. The council produces 3-year budgets, the last of which was agreed in February 2023, and it has an ongoing, regularly reviewed process in relation to a medium-term financial

strategy, rather than a single document with that name. The audit team explained that there are clear links between different aspects of the council's financial planning and a strong audit trail. There is also clear cross-party working, with representatives of all parties involved in discussions around budget setting and financial planning.

- It was explained that the council's reserves include a Medium-Term Financial Planning fund set up to support the 3-year budgets, as well as a Resilience Fund and Corporate Change Fund. The audit team explained that they don't make judgements on what is a 'good' level of reserves, but on the approach to managing them, and that the council is transparent in doing so. The audit team was asked if there were any reasons for a recent increase in the level of reserves from £80 million to £100 million in 2021/22. The team explained this was prior to their audit appointment but agreed to investigate this and report back.

Action: Controller of Audit

- It was noted that the council is – according to its quarterly budget monitoring reports – on track to achieve 93% of the £0.75 million savings target related to the transformation project for 2023/24. The council estimates it will need to make a total of £38 million of savings by 2028. Members noted that the required savings per year are to increase significantly to £12 million in 2025/26 and that – this is heavily dependent on its transformational change plans. It was also noted that in the latest 3-year budget, years 2 and 3 are not balanced.
- It was highlighted that a number of the actions on the council's action plan have a due date of March 2024, with the remainder due during the rest of 2024, and that this coincides with the implementation of a new leadership structure by April 2024, which might make delivery of these actions more complex. However, the audit team explained that a number of key postholders are unchanged, such as the Head of Finance and the Director of Economy and Resources, who are key contacts and have substantial experience.

After discussion, the Commission agreed to consider in private how to respond to the report and approved the proposed publication arrangements outlined in the cover paper.

7. Shetland BVAR update

The Commission considered an update by the Controller of Audit on progress by Shetland Islands Council following the Best Value Assurance Report (BVAR) in 2022.

During discussion,

- The Council had made progress against the existing BVAR action plan but had not yet completed any action.
- The reserves position was highlighted – in particular, a revised but still pessimistic, estimate that they may last for 15 years. The previous BVAR reporting of this largely ignored expected returns on investment and harbour income, as it was based on the Council's previous medium term financial plan. It was explained that the council has not been drawing significant amounts and a recent revision of the medium-term financial plan identified a sustainable draw of £15 million each year. The current

year's plan identified a draw which was above this, so like many other councils, transformation and savings plans were needed to manage this.

- The council's transformation programme was discussed – projects are dispersed across services and the Chief Executive had agreed that there should be a council-wide corporate view of reporting these. Commission members raised the risk of a lack of alignment as a result, as well as individual services being less likely to achieve the necessary transformational change.
- Commission members expressed concern at the council's approach to the above matters and about whether there is sufficient overall strategic leadership and direction of the transformation programme. It was emphasised that reserves should be used to facilitate transformation rather than be seen as a substitute for it.
- Performance reporting had improved in the council but still lacked some aspects expected, including overall balance and focus on council priorities.
- Regarding community engagement, it was acknowledged that communities are well represented by the council as a significant employer, and the nature of the population means communities are more engaged than in larger council areas. However, it was agreed that the council needs to make progress with plans to develop an overall community engagement strategy.

After discussion, the Commission

- Noted the progress update for Shetland Islands Council.
- Agreed that it remains unsatisfied with the progress made by the council following the BVAR.
- Requested that progress against the recommendations in the BVAR are a focus of work on the next Annual Audit Report on the council, with the Controller to consider whether to use her section 102 powers to report any significant issues to the Commission.
- In light of the above, agreed that Shetland should remain in Year 3 of the current programme of reports on Best Value.

8. Dynamic work programme update: stock check against priorities

The Commission considered an update by the Executive Director of Performance Audit and Best Value on the Dynamic Work Programme.

During discussion,

- The Commission welcomed the report and the analysis presented, finding it helpful in assessing the extent to which each of the strategic priorities is being addressed.
- It was noted that although the Environmental Sustainability priority is being considered by the Commission as a cross-cutting topic, the nature of sustainability-related issues in this area – unlike other cross-cutting issues such as equalities – is such that they are less likely to automatically fall into the scope of more general audit

work. This means that a conscious decision is needed to focus on this topic in the work programme.

- It was also noted that although Sustainability features less prominently than other priority themes in the longer-term work programme, the Commission has recently published a number of important Climate Change/Net Zero-related audit outputs and is committed to shortly starting an audit on how well the Scottish Government and local government are planning for Climate Change adaptation.
- It was suggested that the environmental priority could be interpreted more broadly, incorporating aspects of the local environment in which people live including services such as roads, transport and waste. It was pointed out that these services are under particular financial pressure due to budgets for other services being protected, and the Commission has previously expressed a desire to increase its focus on them.
- It was stated that having uncommitted resource is useful, allowing capacity and flexibility to redirect focus and resources to new issues that arise. It was explained that the 'pipeline' part of the programme allows for this, with projects that have not been committed to, alongside confirmed products spanning the next 18 months being able to be started as resources become available.

After discussion, the Commission

- Restated its intention to increase its focus on community-based services that affect people's living environment.
- Noted that the outcomes from this discussion will be reflected in specific proposals brought to the Commission in the February 2024 work programme update.
- Agreed that the Strategy Seminar in March is a good time to consider in detail the pipeline products and how to ensure the best balance across the five priorities.

9. Secretary's update report

The Commission considered a report by the Secretary to the Accounts Commission providing an update on significant recent activity relating to local government.

During discussion,

- Allan Campbell explained that Audit Scotland will be responding to the consultation on Capital Finance and Accounting, as it is a purely technical accounting matter. Following a query from Christine Lester, Allan Campbell agreed to establish whether the external audit firms will respond to this consultation.

Action : Secretary

- Allan also explained that a draft response to the Education Reform consultation had been reviewed and approved by himself and the Interim Chair.
- Regarding self-directed support, the point was made that many service users are not made fully aware of the choice that they have, resulting in an implementation gap.

- Regarding care leaver payments, it was pointed out that financial support is not the only or the most appropriate intervention needed to support a young person's transition from care into adulthood and into independent living.

Following discussion,

- The Commission noted the report.
- The Secretary agreed to liaise with the Executive Director of Performance Audit and Best Value on the points raised regarding the Self-Directed Support and Care Leaver Payment consultations.

Action: Secretary

10. Any other public business

The Chair, having advised that there was no business for this item, closed the public part of the meeting.

11. Chair's update report

The Commission considered a report by the Chair providing an update on recent and upcoming activity.

Following discussion, the Commission:

- Noted the report.

12. Controller of Audit's update report

The Commission considered a verbal update by the Controller of Audit providing an update on recent and upcoming activity.

The update included:

- The section 102 report on Renfrewshire Council regarding school provision in Dargavel, now to be considered at the Commission's January 2024 meeting.
- The Controller's 'keynote' presentation to Audit Scotland staff, including a discussion also involving Sarah Gadsden, Chief Executive of the Improvement Service.
- Ongoing consideration, together with John Boyd (Audit Director, Audit Services), on best to reflect on the issues currently being raised through the Current Audit Issues report to the Commission's Financial Audit and Assurance Committee.
- Meetings in recent weeks with Sean Neill (Scottish Government).
- Quarterly meeting between Accounts Commission and COSLA.
- Ongoing quarterly meetings with Accounts Commission members.

Following discussion, the Commission

- Noted the verbal update.

13. Best Value Report: Dumfries and Galloway Council

The Commission considered its response to the report by the Controller of Audit on Best Value in Dumfries and Galloway Council.

Following discussion, the Commission agreed to make findings to be published on 11 January 2024; the drafting of those findings would be delegated to the Interim Chair and the Secretary on behalf of the Commission and would then be circulated to all members for comment, with responsibility for final sign-off resting with the Interim Chair.

In discussing what the findings should include, the following general points were raised:

- Welcoming the council leadership's commitment to Best Value, the collaborative approach to strategic planning, the council's effective community engagement, and aspects of the council's financial planning including three-year budgets.
- Also welcoming the Council Plan's clear vision and priorities, and the alignment of delivery plans with objectives, although the council should publish a focused suite of high-level performance measures to track progress against its agreed outcomes.
- The need for information about performance to be clearer and more accessible to the public, including a summary and comparisons with other councils – this is required in order to comply with the Statutory Performance Information Direction.
- Analysis of performance using the Local Government Benchmarking Framework ought to be reported to elected members and used to support improvement.
- The reliance in financial plans on transformation to new service models, and the need to deliver these to meet the levels of savings required – although noting the council's track record of delivering savings targets.
- Encouraging the council to continue to ensure its reserves are used effectively and to support its transformation plans, where appropriate.
- Highlighting the council's ambitious plans on climate change, but being unclear on how achievable these are and whether there is the commitment and resources to realise them – noting that the current Council Plan does not include information on whether the council is still working towards its net zero target.

14. Local Government Financial Bulletin draft report

The Commission considered a paper by the Executive Director of Performance Audit and Best Value (PABV) on the Local Government Financial Bulletin draft report.

During discussion,

- Antony Clark introduced the draft report, highlighting that it relates to 2022/23 financial data and noting that much has changed since then in relation to local government finance; he advised that this report is one of a suite of local government reports and will be complemented by the council budgets briefing, to be produced once councils have set their respective budgets.

- Past restrictions on Council Tax rises as well as the planned freeze were also raised. However, it was stated that analysis around the Council Tax and how the freeze is to be funded would be best left to the council budgets briefing, as this relates to 2024/25 budgets whereas the Bulletin focuses on 2022/23 and 23/24.
- The Commission and report team agreed to add further explicit references in the Financial Bulletin to the upcoming council budgets briefing, for updated analysis regarding the Verity House Agreement and Council Tax freeze.
- The Commission asked the team to clarify the points around savings and debt, expand exhibit 6 and amend the wording in the key messages section as discussed.

Action: Executive Director of PABV.

Following discussion, the Commission

- Agreed the messaging around the Verity House Agreement, and agreed to defer analysis regarding council tax to subsequent Commission publications
- Approved the draft Local Government Financial Bulletin subject to the amendments requested and agreed to delegate final approval of the final content – following receipt of any further outstanding data returns from auditors – to the sponsors.
- Agreed it would support the new dashboard format for future editions of the report, and that strong communications and promotion of the report will be required to drive home the key messages but also clarify that much of the data relates to 2022/23.

15. Statutory Performance Information (SPI) Direction 2024 scoping

The Commission considered a paper by the Executive Director of Performance Audit and Best Value and the Secretary to the Commission, on Statutory Performance Information (SPI) Direction 2024 scoping.

During discussion,

- It was suggested that producing the new SPI Direction is not just a case of updating the previous version – the context and its role has changed significantly, and the new Direction could be a key building block of the proposed accountability framework under the Verity House Agreement.
- It was suggested that the Commission looks again at the legal advice it had previously received which indicated that Integration Joint Boards (IJBs) fall outside of scope of the SPI Direction as they are not solely local government bodies. This could involve seeking new legal advice (the previous advice was received in 2015, after the legislation was passed but before it was implemented).
- The role of councils and nature of collective local leadership and decision-making (particularly in relation to statutory Community Planning Partnership partners) was also reflected on, in terms of the purpose being to achieve improved local outcomes over and above simply to provide local services.

Following discussion, the Commission

- Noted its powers to issue an SPI Direction to councils and some joint boards and committees, and how the exercise of those powers has evolved over time.
- Noted that it will need to agree and publish a new SPI Direction by the end of 2024.
- Agreed to pursue the seeking of refreshed legal advice regarding whether IJBs can be subject to the SPI Direction.

Action: Commission Support Team

16. Q2 Corporate performance report

The Commission considered an update by the Chief Operating Officer and the Executive Director of Audit Services, on the Audit Scotland Q2 Corporate Performance Report.

During discussion,

- Vicki Bibby explained the Commission Support Team has worked with the Chief Operating Officer and the Corporate Performance Team on the content and format of the Q2 report. Vicki Bibby provided the correct YTD pay figure on page 8.
- John Cornett provided an update on local government audit delivery. It was advised 67 of 76 (88%) of local government audits had been delivered. Of the nine outstanding, five will be delivered pre-Christmas, and work on three of the other four audits is now complete pending sign off.
- The remaining outstanding audit is Comhairle nan Eilean Siar which is having issues with an ongoing cyber-attack.

Following discussion, the Commission

- Noted the report
- Welcomed the revised format as clearer and more succinct.

17. Local Government audit fees 2023/24

The Commission considered an update by the Chief Operating Officer and the Corporate Finance Manager on Local Government audit fees 2023/24.

During discussion,

- Vicki Bibby advised members that the setting of audit fees is incorporated into the budget setting process which is presented to the SCPA. It was communicated the SCPA submission was broadly supported.
- Members discussed additional fee income charged by Audit Scotland. Vicki Bibby advised whilst traditionally Audit Scotland hadn't charged for additional audit work it was now in the process of charging for additional work caused by client issues, mirroring the approach used by the external audit firms.

Following discussion, the Commission

- Endorsed the fee levels for the 2023/24 audits in the local government sector.

18. Any other private business

Nichola Brown requested clarification of the dates relating to the 2024 Accounts Commission's Strategy Seminars. It was advised the Accounts Commission Support team would confirm these and reissue the invites.

Action: Commission Support Team

Members advised they wished to place on record they're thanks to Ronnie Hinds (interim Chair) for his stewardship and wished him well for the future.

The Chair, having advised that there was no further business, closed the meeting.

19. Close of meeting

The meeting closed at 14.50.

Statutory report: School accommodation for Dargavel Village

Secretary to Accounts Commission

Item 5
Meeting date: 11 January 2024

Purpose

1. The purpose of this paper is to introduce the Controller of Audit's report on School accommodation for Dargavel Village, produced following the 2022/23 audit of Renfrewshire Council. The paper also provides background and procedural information to assist the Commission in its consideration of the report.

Recommendations

2. The Commission is invited to:
 - Consider the Controller of Audit's report.
 - Approve the proposed publication arrangements.
 - Decide how it wishes to proceed.

Background

3. The 2022/23 annual audit report for Renfrewshire Council was to be published in January 2024. The appointed auditor (Azets) issued an unqualified opinion on the accounts.
4. In June 2023, the Council received the findings of the [Independent Review of the Council's assessment of the demand for education for Dargavel Village, secured in Section 75 Agreements with BAE Systems](#), by David Bowles. Mr Bowles is a former local government Director and Chief Executive. The Bowles report highlights significant failings in leadership and risk management, and a disregard of concerns expressed by the local community. The Council has accepted the recommendations of the report in full and has issued an apology to the local community.

The Controller of Audit's report

5. The Controller of Audit's report provides full background on the issue, the Bowles report, and a timeline of events.
6. It's important to note that the Controller's report is focused on the actions the Council has taken in response to the Bowles report and the lessons that have been learnt – it does not seek to repeat Mr Bowles's review of the factors that led to the issue arising.
7. The Controller also notes that the Council has developed an action plan for its response, and the focus of the Controller's conclusions are on that action plan. The report concludes by stating that:

“The Council’s appointed auditors will continue to monitor and report on progress in addressing the recommendations contained within the Bowles Report through the annual audit process. The Council has taken steps to respond to the recommendations of the independent Bowles report but there is still more to be done. Both the community and Council will be dealing with the consequences of this error for some time.”

8. The report is made by the Controller of Audit to the Commission under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
9. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
 - the accounts of local authorities audited under the Act;
 - any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public; and
 - the performance by a local authority of their statutory duties in relation to best value and community planning.
10. A copy of the report was sent to Renfrewshire Council on 4 January 2024 by the Controller of Audit (the same day it was issued to Accounts Commission members). The council has been advised that it is obliged to supply a copy to each member of the council and to make additional copies available for public inspection. Once the Controller of Audit’s report is sent to the Council it is effectively in the public domain.

Procedure

11. The Commission will note that this report is made under the same legislation as the recent reports on best value. The process outlined below is therefore the same.
12. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:
 - direct the Controller of Audit to carry out further investigations
 - hold a hearing
 - state its findings.
13. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
14. Members of the audit team will be present at the Commission’s meeting and will be available to answer questions on the evidence and judgements presented in the report. This is done in the public part of the Commission meeting.
15. The Commission is then expected to consider in private how it wishes to proceed. Subsequently, the Commission is obliged by statute to inform the Council of its decision, which the Commission does before making the decision public.

- 16.** If the Commission decides to make findings, the council is required by statute to do the following:
- consider the findings of the Commission within three months of receiving them
 - publish in a newspaper circulating in the local area a notice stating the time and place of the meeting, indicating that it is to be held to consider the findings of the Commission and describing the nature of those findings (at least seven clear days before the meeting)
 - after the council has met:
 - notify the Commission of any decisions made
 - publish in a newspaper circulating in the local area a notice containing a summary, approved by the Commission, of the Council's decision.
- 17.** The Commission asks the council for a meeting, preferably in the period between the Commission publishing findings and the council considering them, to do the following:
- for Commission members to hear what the council thinks of their findings
 - to discuss what the council will do with the findings
 - to confirm any next steps
 - to review the audit process.
- 18.** If the Commission decides to hold a hearing, arrangements and processes are largely down to the Commission to decide. Hearings are rare (the last was in 2010). As noted above, the Commission could make findings and then hold a hearing (actions can be taken in “any order”). But it would be more likely to hold a hearing to inform findings. The circumstances in which the Commission might wish to hold a formal hearing are likely to include:
- where the Commission has serious concerns about the performance of a council as demonstrated in the audit report
 - where the Commission considers that its findings would be better informed by hearing directly from the local community and the Council
 - where there is a strong difference of opinion between the Controller of Audit and the council.

Correspondence

19. The Commission Support Team has received correspondence from the Chair of Dargavel Primary Parent Council. The correspondence expresses strong concerns about the ongoing actions of the Council and the extent to which it is learning lessons following the Bowles report, particularly concerning its engagement with the local community and the decision to expand Park Mains High School. The Chair of the Parent Council also indicated that the community has received legal advice which, he says, indicates a high prospect of success at Judicial Review of challenging the decisions made by the Council.

Publication arrangements

20. The issue of Dargavel school has been high profile in local and national media. Whether or not the Commission chooses to make findings, and irrespective of whether it decides to hold a hearing, the Controller's report will be published soon after the meeting. This will be accompanied by the usual news release and media activity. If the Commission decides that further audit work is required, the Commission will need to consider whether to publish the section 102 report now or wait until that work is completed, although as it is part of the public papers pack for today the report is already effectively in the public domain.

Conclusion

21. The Commission is invited to:

- consider the Controller of Audit's statutory report on School accommodation for Dargavel Village
- approve the proposed publication arrangements.
- decide in private how it wishes to proceed.

The 2022/23 audit of Renfrewshire Council

School accommodation for Dargavel Village



ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
December 2023

Contents

Introduction	3
Dargavel School – Timeline of key events	5
Independent examiner’s report – the ‘Bowles report’	7
The council’s response	10
Conclusions	15

Introduction

- 1.** The Code of Audit Practice requires auditors to produce an annual report summarising the significant matters arising from their work at the conclusion of each year's audit. For local authorities, these reports are addressed to elected members and the Controller of Audit.
- 2.** I have reviewed the 2022/23 Annual Audit Report for Renfrewshire Council (the council) from Azets, the appointed auditor. The auditor's Annual Audit Report was considered by the council's Audit, Risk and Scrutiny Board (ARSB) on 6 November 2023 and by the full council on 16 November 2023. The report has also been published on [Audit Scotland's website](#). The auditor issued an unmodified opinion on the council's 2022/23 annual accounts.
- 3.** In June 2023, the council received the findings of an independent report (the Bowles report) that highlighted significant failings of leadership, oversight and risk management in relation to the provision of school accommodation for Dargavel Village. The consequences of this for both the community and the council are far reaching and a significant cause for concern. The council has developed an action plan to respond to the issues identified and is, and must continue, to work hard to rebuild the trust of the communities affected and demonstrate that lessons have been learnt.
- 4.** I have therefore decided to use the reporting powers available to me under s102 (1) of the Local Government (Scotland) Act 1973 to bring this issue, and the action the council is now taking in response to the Bowles report, to the Commission's attention.

Background

- 5.** The development of the new village of Dargavel, in Renfrewshire, is a large and complex project, which has evolved into one of the largest housing developments in Scotland. The land at Dargavel Village is being developed by BAE Systems who were initially granted planning permission for the development of a maximum of 2,500 houses in 2009. This was increased, through a range of further planning applications between 2014 and 2018, most notably by 1,350 as part of two major additional applications in 2018. The council in 2023 formally acknowledged that the historically consented planning permission was for 4,322 units on the Dargavel site.
- 6.** It is common practice for local authorities, when considering planning permission for new housing developments, to enter into an agreement with the developers to contribute to the additional public costs associated with delivery of any new housing development, including costs associated with schools, health, roads and other infrastructure. These legally binding agreements are made under Section 75 of the Town and Country Planning (Scotland) Act 1997. A new primary school (Dargavel Primary) was built by

BAE systems in Dargavel Village as part of a Section 75 agreement with BAE systems. It opened in January 2022 with an expected capacity for 430 pupils.

7. In May 2022, as part of the 2022/23 intake, council officers recognised that they had substantially underestimated the demand for primary school places in Dargavel Village. At the same time the council recognised that the demand for secondary education was also likely to have been significantly underestimated.

8. Following analysis over the summer period to quantify and understand both the scale and time critical nature of the problem, a special meeting of the council's Education and Children Services Policy Board was held in November 2022. The main purpose of the meeting was to discuss Dargavel Primary School capacity. It was reported that the current school roll was 463. The council projected a potential school roll of up to 620 pupils by August 2023 and 705 pupils by August 2024. The board concluded that the existing school capacity would be materially insufficient to meet the future demand profile of the catchment area.

9. Additional work by the council to create a robust long-term estimate of pupil numbers (further confirmed by more detailed projections from the council's consultants, Edge Analytics) identified a need for a core primary school capacity of 1,130 pupils and high likelihood of breaching the existing 430 capacity in the 2023/24 school intake requiring circa 60 per cent more pupil spaces.

10. The Education and Children Services Policy Board has approved planning for an additional primary school in Dargavel and an extension to Park Mains High School. The council had planned an extension to Park Mains High School as part of its section 75 agreement with BAE Systems in 2018 and confirmed the size of that extension in its 2023 agreement. The Bowles report highlights that the council's failure to appreciate the risks that they were taking in the original contract they negotiated, which allowed BAE to cap their contributions¹ means that it is the council that will need to meet the additional costs over and above this cap associated with increasing capacity.

¹ BAE Systems have contributed the primary school at Dargavel Village and land for the building of a second primary school. They have capped their contributions for secondary school capacity to 200 pupil places.

Dargavel School – Timeline of key events

Date	Event
2006	The original masterplan application for the Dargavel development is submitted by BAE Systems
Aug 2009	Outline planning consent approved
2009	Section 75 agreement signed between the council and BAE Systems for 2,500 houses and 340 primary school pupils spaces
2013	Dargavel Village construction commences
Sep 2014	Concerns expressed as to the size of the planned school by the community council
Apr 2016	The council updates the school capacity requirement to 430 places for extending Dargavel Village development to 3,850 homes
Jan 2017-2021	Community concerns over low school capacity continue to be raised
Oct 2018	Section 75 Agreement signed. Planning consent for 3,850 houses granted by the council. BAE Systems formally obligated to build Dargavel Primary School with capacity for 430 pupils
2020	Dargavel Primary School construction commences
Jan 2022	Dargavel Primary School opens
May 2022	During the 2022/23 intake, the council becomes aware that pupil admissions are higher than expected
Nov 2022	The council appoints Edge Analytics to provide support for school capacity estimates
Dec 2022	The council's chief executive appoints Mr David Bowles to undertake an independent review of Dargavel Primary School capacity issues
Mar 2023	The EPCB approve planning for an additional school in Dargavel with a minimum capacity for 700

May 2023	Updated projections recommend additional primary school capacity requirement of 800 The ECPB approves an extension to Park Mains High School to create capacity for an additional 400 secondary school places
Jun 2023	'The Bowles report' is published and presented to the full council. The council accepts all recommendations in full
Aug 2023	The council instals six modular classrooms in Dargavel school as an interim capacity solution
Sep 2023	The council secures a land transfer from BAE systems to build a new primary school and, in exchange, the council clarifies that a maximum of 4,322 homes are consented to be delivered as a part of Dargavel Masterplan.

Independent examiner's report – the 'Bowles report'

11. Following the special meeting of the council's Education and Children Services Policy Board in November 2022, the council gave authority to the chief executive to establish an independent assessment of the circumstances which led to the significant error in school capacity planning for Dargavel School. David Bowles, a former local government director and chief executive, was appointed directly by the chief executive following a search for suitable candidates for the role supported by SOLACE.

12. The overriding conclusion of the report was that:

'...the council was completely unaware of, and therefore unprepared for, the impact that a development such as Dargavel would have upon the education service.'

13. The report further concluded that:

'Regardless of considerable uncertainty of estimating pupil need 20 years ahead, before detailed consents had been given and the housing mix known, the council allowed BAE to cap its contributions in both agreements, leaving all of the risk with the council. It is difficult to see how both of these agreements, involving potentially millions of pounds of investment in primary and secondary education, could have been handled in a more incompetent manner.'

14. The 'Bowles report' was published and presented at the June 2023 full council meeting and identified the following key factors (with summarised extracts) which contributed to the Dargavel School outcomes:

- **A failure of leadership in the education service.** Senior education management were both incompetent and not sufficiently engaged in the project.
- **Limited corporate oversight of the project.** There is no evidence of corporate intervention to provide internal support or seek external advice.
- **Lack of clarity about the size of the development.** Different parts of the council have been working on different housing numbers and BAE have quoted different numbers.
- **A complete and repeated failure to test data for reasonableness.** The council had numerous opportunities to test data for reasonableness and it failed to do so.

- **Ignoring conflicting data.** There are frequent instances of conflicting data being disregarded.
- **Not either understanding or planning to manage the risk associated with large developments.** The lack of understanding of (estimation) risks can be highlighted by the inept decision of the council to reduce the size of the Dargavel School site.
- **Focussing on capacity problems at Bishopton Primary School.** At no time did officers question why there was a 'spike' in children from the Dargavel development being admitted to Bishopton school.
- **Ignoring emerging problems when agreeing to a 2-form entry primary school in 2018, which increased the capacity of the planned Dargavel school by about 100 places.** There was ample evidence the council had seriously underestimated primary school demand before the original planning application in 2018.
- **A failure to recognise the growing school capacity problem until May 2022.** The (school place demand) error was so obvious it is difficult to see how it remained undetected for six years.
- **A failure to take any concerns expressed by others seriously.** The response by council officers to numerous examples of concerns being expressed by a range of stakeholders showed professional arrogance.

15. The Bowles report recommended that the council:

- **Builds a more robust model of primary school need for Dargavel.** The council should update and refine the existing model of pupil numbers and the potential range of demand and continue to work with experts in this area. It should also review the mix of housing approvals and extend the time period of the forecasts for primary to assess whether there is likely to be a peak in demand or just a plateau then a decline.
- **Reconsider catchment areas.** The earlier decision on catchment areas was made on the assumption the developer would be meeting all of the costs of primary education, without needing to use the surplus capacity at Bishopton. That is no longer the case. In its future plans the council should reconsider how surplus capacity at Bishopton can be used effectively.
- **Produce robust supplementary guidance on developer contributions.** The council should be clear about who has responsibility for this area of work and ensure they have the appropriate skills available to them, either internally or externally. The council should review how data flows between planning and education and that they both understand its import.
- **Seek to work co-operatively with BAE.** Unless the council and BAE can work together to resolve the current problems, BAE may face

accusations, whether founded or not and regardless of council incompetence, that it has financially benefitted at the expense of council taxpayers.

- **Corporate working and organisational culture.** The council needs to consider a significant change programme, not just on the of issue of corporate working and personal responsibility, but also its organisational culture and values. It needs plans to build a stronger organisation where constructive challenge is welcomed and there is a clarity of what is expected of all of those in a leadership role.
- **Risk management.** The council needs to review how it both identifies risk and manages it. The identified risk in council documents related to delivering the school on time, not that the size of the school may prove to be inadequate. The failure to identify that risk has had two consequences; first the council has been slow to react to the increase in pupil numbers and second the council did not negotiate with BAE, with that risk in mind.
- **Involvement of members.** While protecting the integrity of the planning process, the council needs to ensure the appropriate involvement of members in such developments.
- **Public confidence.** The council should work in an open and transparent manner in the resolution of these issues and particularly with the residents of Dargavel, who have legitimate concerns about the implications for their children, during both their primary and secondary education.

Source: Dargavel Primary – Independent External Review, The Bowles report

The council's response

16. The council accepted in full the recommendations of the Bowles report at its meeting of 22 June 2023 and apologised to the local community for the significant errors made. Since then, it has supplemented its initial response with a more detailed action plan, however it is clear that the implications of this issue will be felt for some time to come. The council is, and must continue to, work hard to rebuild the trust of the affected communities and demonstrate that it has learnt lessons. The council's progress in implementing agreed actions is monitored by the Audit, Risk and Scrutiny Board.

17. The council has engaged external consultants, Edge Analytics, to provide expert support in estimating demand for places across its school estate and has taken forward an analysis of how other local authorities manage developer contributions ahead of the development of updated guidance.

Addressing capacity issues in the short term

18. The council have implemented transitional arrangements to address immediate capacity issues in Dargavel Primary School. These interim measures have included the creation of new modular classrooms and the utilisation of available capacity in the neighbouring Bishopton School. The council has assessed, with the support of external consultants, that these interim measures will be sufficient to accommodate primary and secondary school demand until the anticipated new schools are developed by August 2027 but this will require to be kept under careful review.

19. The council assesses the impact of these transitional arrangements on the standard of teaching delivery and pupil attainment as part of its regular monitoring arrangements. At this stage, the council assesses that, while there has been some disruption, there has been no detriment to either teaching delivery or pupil education in the Dargavel and Bishopton areas.

20. The council will continue to monitor the quality of educational delivery and measures of pupil attainment closely through its existing quality monitoring arrangements. It is critical that the council ensures that it robustly assesses educational impacts and continues to report publicly on this to maintain community confidence.

Addressing capacity issues in the medium term

21. The council had limited options for addressing the medium-term primary school capacity issues in faced in Dargavel Village given the size of the capacity shortfall (around 800 places) which meant that extension of the existing site was not an option and the surrounding land is owned by BAE systems.

22. As a result, the council entered into negotiations with BAE Systems to explore options for addressing the education needs of the Dargavel community. These negotiations resulted in an agreement with BAE Systems to transfer a parcel of land to the council for £1 in August 2023 that could enable the building of an additional new primary school within Dargavel village. This final decision on the building of a new school will be subject to a full statutory consultation process in due course.

23. Section 75 agreements often require developers to include affordable housing and housing available for the social rented sector as part of the planning permission process. In reaching agreement with BAE Systems to transfer the land that could accommodate the construction of an additional primary school, the council also formally acknowledged that the historically consented planning permission was for 4,322 units on the Dargavel site and agreed to reduce the affordable housing requirement at stage 2 of the development. Consequently, there will now be 243 social rented units as opposed to 336 as part of the overall development. Equally though, the revised agreement anticipates that there will be circa 1,271 lower market sector units against the earlier obligation to build 681 units.

24. The council recognised that the Dargavel Village development would also create an increased demand for secondary school places. The council worked with Edge Analytics to develop an estimate of the impact of this increased demand on secondary school capacity and provision across the whole school estate. The council concluded at a meeting of the Education and Children's Services Policy Board on 18 May 2023 to continue with plans to extend the existing Park Mains High School at an estimated cost of £30 million to provide an additional 400 secondary school places required.

25. The council did not present any formal options appraisal on provision of secondary school places in its public report to support its decision-making, but had considered an alternative solution and informally estimated that the cost of building a new secondary school in Dargavel/Bishopton (an alternative favoured by some community groups) at around £90 million. The adoption of this new build option would also create surplus capacity of 40% to 60% within the existing Park Mains High School and result in significant additional net annual revenue costs. The council subsequently communicated and explained the rationale and data underlying its decision to the Park Mains Liaison Group and other community group meetings.

Financial impact

26. The council currently estimates that it will require £75 million of new capital investment to create the required capacity to fully meet the primary and secondary education needs of the Dargavel and Bishopton communities. The council and the housing developer have agreed that the housing developer (BAE systems) has fulfilled its obligations under the Section 75 agreement in relation to the provision of primary school capacity.

27. BAE systems have capped its contributions for secondary school places to 200 pupils meaning they are still required to meet almost 50% of the costs of the proposed 409 pupil place extension to Park Mains High School.

28. The estimated net additional costs of £60 million must therefore be met by the council. The council plans to fund these capital costs from borrowing, and estimates it will add around £4 million to the council's annual revenue budget. Council debt is normally written down over the estimated lifetime of the asset which is currently an average of 40 years for the Renfrewshire school estate.

29. The council estimates that the net revenue cost of running the new primary school when it becomes operational in August 2027 will be around £0.5 million per year, as additional running costs will largely be offset by increased grant funding provided through the overall Scottish Government grant distribution process. The council has not yet included an estimate for the net running costs of the Park Mains High School extension.

30. In context, the council is already facing a significant financial challenge and recently updated its Medium-Term Financial Plan to include the additional £4.5 million borrowing and operating costs identified above. The council is now projecting a budget deficit of up to £50 million by 2026/27 and will have to make difficult decisions on spending priorities in the near future.

Community engagement

31. The council recognises that it faces a significant challenge to rebuild the trust and confidence of local communities. A recent report to the Education, Children's Services Policy Board notes the desire of the community to better understand the rationale for the council's decision to extend (rather than replace) an existing secondary school serving the Dargavel and Bishopton areas. It is critical that the council proactively engages the local community in its school estate decision making.

32. In October 2022, the council introduced a specific Dargavel communication and engagement strategy which included the creation of a dedicated mailbox for the community to ask questions and raise concerns and the development of a regular community newsletter. The council's senior team have also attended a number of public meetings with residents of the Dargavel and Bishopton communities and attended Community Council and Parent Council meetings. The council also created the Park Mains Liaison Group which is attended by senior council members and representatives from the local community.

33. The council has used these forums to communicate, explain and engage with local communities on its plans to address school capacity issues in Dargavel and Bishopton and to address any local concerns. It is important that the council robustly assesses the effectiveness of its community engagement to understand how best to continue its efforts. The council has not yet undertaken any formal assessment of its arrangements.

Governance

34. The findings of the Bowles Report, although restricted to the historical handling of the Dargavel Development, raises a legitimate line of concern in relation to the effectiveness of the council's governance arrangements,

particularly in relation to corporate working and organisational culture, effective risk management and member involvement in decision making on major projects. I have sought to understand the extent to which these issues are also representative of the council's overall governance and decision-making arrangements.

35. The council's auditors have concluded, overall, that the council has appropriate governance arrangements in place with improvements over the years in member and officer relationships and effective leadership overall. The auditors have not highlighted any concerns over the wider organisational culture or in its approach to managing major capital programmes but have identified that the role of the Audit, Risk and Scrutiny Board in ensuring effective scrutiny is not sufficiently clear.

36. In response to both the Bowles report and the auditors recommendations, the council have committed to review their overall governance and scrutiny arrangements as part of a wider review of corporate governance. The council will also undertake a review of the effectiveness of its Audit, Risk and Scrutiny Board against CIPFA good practise guidelines.

37. The council has also committed to review its approach to risk management across all council projects. The council has also committed to delivering a comprehensive leadership development programme for all chief officers and senior managers and has committed to evaluate this programme before rolling it out to the next management cohort. The council understands it must progress these actions in order to assure itself and others that its governance and scrutiny arrangements are robust and that it is able to demonstrate a strong organisational culture.

38. Learning the lessons from the school capacity issues in the Bishopton and Dargavel communities continues to feature prominently in council meetings. The audit team have observed an appropriate level of involvement of members at the Education, Children Services Policy Board who scrutinise the delivery of education across the council. The council recently adopted a Strategic Learning Estate Work Programme, which brings together officers from different departments to oversee educational estate delivery and ensure joint working going forward.

39. The council did not include a formal options appraisal in the report on the provision of secondary school places to support its decision-making on the extension of Park Mains High School in May 2023. The council also did not articulate in that report why it felt an option appraisal was not required or how it planned to engage with local communities on the underlying data and rationale that supported the decision. Whilst this approach is consistent, in specific circumstances, with Scottish Government guidance on managing consulting on changes to the school estate and education provision, it remains a significant omission in the decision-making process. The council should have been more open and transparent on the range of available options in relation to the school estate, the process through which views could be heard and the basis on which any future decisions would be taken.

40. Finally, the auditor has concluded that the council has obtained appropriate external legal advice and determined there is no potential for any form of action against former senior employees involved in the Dargavel School decision-making. No disciplinary action has been taken against any senior officer involved in decision-making relevant to the Section 75 approval process for the Dargavel Village development.

Conclusions

41. The Bowles report highlights significant historic failings in leadership and risk management and a disregard of concerns expressed by the local community. I note the council's acceptance in full of the Bowles report recommendations and their apology to the local community. The council has developed an action plan setting out its response to the issues identified, and the council must work hard to rebuild trust and respond to the issues identified.

42. Progress against this action plan will be reported to the council's Audit Risk and Scrutiny Board. The council has committed to review its overall governance and scrutiny arrangements, including the effectiveness of its Audit Risk and Scrutiny arrangements against CIPFA good practise guidelines. It must progress this in order to assure itself, and others, that its governance and scrutiny arrangements are robust.

43. The council should have explained its decision-making process more clearly and transparently when finalising its decision to extend Park Mains High School. It is essential that the council is open and transparent on the range of available options in relation to the school estate, the process through which stakeholder views can be heard and the basis on which future decisions will be taken.

44. The council has now engaged expert consultants to advise on school capacity requirements and has developed plans for a new primary school and extension to the existing high school. These significant school infrastructure projects are not expected to be completed until August 2027 and will require strong governance arrangements to ensure they are completed on time and budget and meet the educational needs of the local community. I will continue to monitor the council's progress in managing these projects.

45. The council has not yet reached the stage of engaging with contractors to build the new Dargavel Primary School and the proposed extension to Park Mains High School but has estimated costs of £75 million, with £60 million of these costs due to be met by the council. These costs will add over £4.5 million² to the council's annual revenue budget and add to the already significant financial challenge faced by the council. The council needs to make some difficult spending priority decisions going forward.

46. While the council has assessed that the short-term transition arrangements have caused no detriment to either teaching delivery or pupil

² The council has yet to include an estimate for the additional annual running costs for the proposed Park Mains High School extension in its medium-term financial plan.

education, this is an issue they will need to monitor closely and report on publicly. The council faces a significant challenge to rebuild trust and confidence with the affected local communities and must take steps to assess the effectiveness of its community engagement programme.

47. The council's appointed auditors will continue to monitor and report on progress in addressing the recommendations contained within the Bowles report through the annual audit process. The council has taken steps to respond to the recommendations of the independent Bowles report but there is still more to be done. Both the community and council will be dealing with the consequences of this error for some time.

The 2022/23 audit of Renfrewshire Council

School accommodation for Dargavel Village



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

Purpose

1. This report introduces the Controller of Audit's report on Best Value in Orkney Islands Council for the Commission's consideration, alongside the associated publication arrangements.

Recommendations

2. The Commission is invited to:
 - Consider the Controller of Audit's report.
 - Approve the proposed publication arrangements.
 - Decide how it wishes to proceed.

Background

3. The report draws the Commission's attention to the findings set out in Orkney Islands Council's 2022/23 Annual Audit Report (AAR) on how effectively the council demonstrates Best Value through continuous improvement in how it delivers its strategic priorities.
4. Best Value audit work is now fully integrated into annual financial audit work to increase its impact and efficiency and reduce the scrutiny burden on councils. Best Value work is reported in AARs and also includes follow-up and thematic Best Value work, providing judgements on the pace and depth of continuous improvements and service performance. This work provides the Commission with the opportunity to offer a national overview of key aspects of Best Value, as well as supporting accountability and improvement within individual councils to generate greater impact from the Best Value audit work.
5. The theme chosen by the Commission for its annual Best Value thematic work for 2022/23 was Leadership of the development of new strategic priorities. The Commission intends to publish a national thematic report on leadership of strategic priorities, drawing on the findings of Best Value thematic work across all 32 councils, in 2024.
6. At least once during the current five-year audit appointment the Controller of Audit is required to report to the Commission on Best Value in each council. These reports are based on the Best Value audit findings reported in AARs. They replace the Best Value Assurance Reports that were published on all councils between 2017-22.
7. The Best Value thematic work at Orkney Islands Council was presented as a management report to its Audit, Risk and Scrutiny Committee on 29 November 2023. Findings from the BV thematic report are included in the AAR. The appointed auditor is responsible for preparing the AAR and presenting it to those charged with governance at the council. The AAR for Orkney Islands Council was also presented to its Audit, Risk and Scrutiny Committee on 29 November 2023.

The Controller of Audit's report

8. This report is made by the Controller of Audit to the Commission under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
9. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
 - The accounts of local authorities audited under the Act;
 - Any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public; and
 - The performance by a local authority of their statutory duties in relation to best value and community planning.
10. The Controller of Audit Report was sent to Orkney Islands Council on 4 January 2024, the same date it was issued to the Commission. The council has been advised that it is obliged to supply a copy of the report and the AAR on which it is based to each member of the council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the council it is effectively in the public domain.

Procedure

11. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:
 - direct the Controller of Audit to carry out further investigations
 - hold a hearing
 - state its findings.
12. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
13. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence and judgements presented in the AAR, with a focus on Best Value. This is done in the public part of the Commission meeting.
14. The Commission is then expected to consider in private how it wishes to proceed. Subsequently, the Commission is obliged by statute to inform Orkney Islands Council of its decision on the same day as the Accounts Commission meeting which the Commission does before making the decision public.
15. The Commission asks the council for a meeting, preferably in the period between the Commission publishing findings and the council considering them, to do the following:
 - for Commission members to hear what the council thinks of their findings
 - to discuss what the council will do with the findings

- to confirm any next steps
- to review the audit process.

16. The council is required by statute to do the following:

- consider the findings of the Commission within three months of receiving them
- publish in a newspaper circulating in the local area a notice stating the time and place of the meeting, indicating that it is to be held to consider the findings of the Commission and describing the nature of those findings (at least seven clear days before the meeting)
- after the council has met:
 - notify the Commission of any decisions made
 - publish in a newspaper circulating in the local area a notice containing a summary, approved by the Commission, of the council's decision.

Publication arrangements

17. The main communications outputs for each of the new Best Value reports currently include:

- Short animation – key messages for local communities from the annual audit report
- News release – based on the Account Commission's findings, including a quote from the Chair of the Accounts Commission
- Social media – detailed list of key groups to tag within each council area, including community councils, tenant groups, third sector and local third sector interfaces.

18. In addition, we will carry out the following communications and engagement:

- Local media – advance engagement with local media about the report to increase the potential for interviews
- Local third sector interface – share messages, animation and images with each of the local third sector interfaces, provide support to share across their wide-ranging contact groups
- Ongoing engagement with the local council.

19. The main audiences for our communications are:

- Council and council staff
- Local communities
- Third sector groups
- Local and specialist media
- COSLA and the Improvement Service

- Other councils – to share best practice.

20. Alongside reviewing the impact of our specific communications activity for each report, we will carry out a comparative review of our communications after four Best Value reports have been published.

Conclusion

21. The Commission is invited to:

- consider the Controller of Audit's statutory report on Best Value in Orkney Islands Council
- approve the proposed publication arrangements
- decide in private how it wishes to proceed.

Best Value

Orkney Islands Council



ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
January 2024

Contents

Key facts	3
Controller of Audit Report	4
Appendix 1: 2022/23 Annual Audit Report	8
Appendix 2: Best Value	9

Key facts

390 Square miles across 70 islands

22,540 Population

1,911 Workforce (Full time equivalent)

21 Elected members
19 independent, 2 Scottish Green Party

£27.1m Savings required by 2027/28

£99.9m Net revenue budget 2022/23

£61.5m Capital programme 2022/23-2025/26
(£22.3m expenditure in 2022/23)

Controller of Audit Report

1. This report is made by the Controller of Audit to the Commission under Section 102(1) of the amended Local Government (Scotland) Act 1973.
2. This report draws the Commission's attention to the findings set out in the 2022/23 Annual Audit Report (AAR) ([Appendix 1](#)), including the Best Value thematic report, on how effectively Orkney Islands Council demonstrates Best Value ([Appendix 2](#)) through continuous improvement in how it delivers its strategic priorities. The report is part of the new audit approach to Best Value which is fully integrated with the annual audit at each council and includes detailed work each year focusing on a national theme.
3. Overall the council continues to make progress in securing Best Value and setting its overarching strategic direction. The council incorporated improvement actions identified in the 2017 Best Value Assurance Report (BVAR) in its 2018-2023 Council Delivery Plan and reported these as implemented. Audit work across 2020/21 and 2021/22 identified that issues raised in our BVAR were still applicable to the council including capital slippage and long-term financial planning. Auditors concluded that external factors such as the pandemic may have limited the impact of the actions taken and that the areas previously identified should continue to be a focus for improvement in order to drive forward the change required.
4. The council has effective strategic planning in place and has set a clear vision. The Council Plan (2023-2028) is informed by Orkney's Community Plan 2023-2030 (its Local outcomes Improvement Plan). It sets clear priorities which include a focus on inequalities and climate change. The Council Plan is supported by a Delivery Plan and the council is in the process of developing four directorate-level delivery plans that include the projects, services, and policies required to achieve its objectives.
5. The council agreed its new workforce plan in June 2022. It approved a Digital Strategy Delivery Plan in September 2023 and has property asset plans in place; however its **asset plans are now due for review and will require alignment with the new Council Plan.**
6. Performance management in the council provides a sound base for improvement. The Council Plan includes performance measures and targets from both the Local Government Benchmarking Framework (LGBF) and the community plan. Its Policy and Resources Committee receives six-monthly Council Plan and service plan performance monitoring reports. The council has incorporated annual self-assessment into its service planning process.
7. The council has a clear focus on reporting LGBF indicators which are related to priorities in the Council Plan. Performance reports provide narrative context for each indicator, and the council has developed further quantifiable KPIs to

support this. The first reports for its new 2023-28 Council Plan will start from 2024/25 as part of its revised performance management arrangements for its new Council Plan.

8. The council has arrangements in place to comply with the Commission's SPI Direction. It reports on service performance, with reference to the Local Government Benchmarking Framework (LGBF) and also Best Value and external inspections. The 2022/23 annual audit report noted that the latest available service performance information on the council's webpages relates to September 2021, though the annual report for 2022-2023 has since been uploaded and is available. **The council should ensure it keeps performance related information on its website up to date.**

9. Public satisfaction with local services is historically good. There has been a slight improvement in performance across council services in recent years, however, looking across Scotland, the proportion of LGBF indicators in the upper two performance quartiles has fallen to 50 per cent in 2021/22 from 55 percent in the previous year. Areas performing less well include cost indicators such as cost per primary school pupil, cost per home care hour and council tax collection costs.

10. In 2021/22, of the 19 LGBF indicators the council identifies as aligned with the Council Plan priorities, five indicate the council is in the top quartile of councils, five indicate the council is in the second quartile, and it is in the bottom two quartiles for the remaining nine. The council plans to undertake further analysis across all LGBF indicators to identify any areas for improvement by August 2024. **The council should carry out a root cause analysis to monitor service performance, particularly in areas aligned to council priorities.**

11. The council has a track record of working well with partners and communities and this has continued. It has engaged communities effectively over its priorities, including harder to reach groups. Consultation on the Council Plan involved an 'Orkney Matters' survey and a series of online meetings, with dedicated sessions for schools and community groups. A public consultation was used to inform the draft plan before it was finalised. Community engagement related outcomes and performance targets are built into the Council's strategic planning process.

12. The council is undertaking a Community Consultation and Engagement review to improve citizen involvement and standardise the tools and approach across the partnership. The review will also consider the ongoing use of its Orkney Opinions citizens panel which had stopped during Covid. The project's goals and objectives are to be determined by 31 December 2024, with an anticipated project completion date of March 2026. **As part of this review, the council should consider how it can ensure regular and structured consultation throughout the year, and seek stakeholder views on the proposed and implemented approach.**

13. The Orkney community planning partnership's first Locality Plan for 2018-2021 focused on the ferry-linked isles, but progress had stalled due to the pandemic. The council is preparing a new locality plan for its ferry-linked isles to

be completed by 31 March 2024. **It should support The Orkney Partnership to assess the extent to which further plans are necessary.**

14. The council has a clear understanding of inequalities faced by its island communities. Equalities impact, and island communities impact assessments were carried out in developing the Council Plan. The council had presented these assessments together with the Council Plan to the Policy and Resources Committee. The council has published its impact assessments together with the associated committee meeting reports but it has not published them on the relevant area of its website since 2018. **The council should ensure that up to date equalities impact assessments are readily available on its website.**

15. The community plan and the Council Plan include poverty and inequality related outcomes, with supporting measures and targets. However the Council Delivery Plan does not include specific inequality measures or actions. The council presented its Equality Outcomes 2023-2027 report to Policy and Resources Committee in September 2023 and work is ongoing to develop the associated performance indicators and delivery plan. Until these are completed, there is a risk that the council is not able to monitor and achieve its stated equality outcomes objectives. **The council should develop delivery plans with specific inequality related performance measures to support its equalities outcomes.**

16. The council has identified climate change as a strategic priority and it has developed associated action plans and performance measures. It aims to become net zero by 2030. Its 2016-26 Carbon Management programme aims to reduce the council's carbon emissions by 42% by 2025 compared to 2004/05 base levels. As at 2021/22, the council had achieved an 18% reduction. **The council should continue to develop its climate related strategies and associated delivery plans and include financial impacts in its future budgets and the medium-term financial plan.**

17. The council has benefited from a strong financial position for many years and income from its harbour activities has contributed to substantial financial reserves. This has allowed it to meet short and medium-term budget pressures and reduce pressure on its front-line services.

18. Financial sustainability is a key focus of the Council Plan. A medium-term financial strategy (MTFS) is in place that includes scenario planning. The risks associated with the assumptions in the MTFS include forecast error, economic performance (including inflation assumptions), changes to Scottish Government spending, political pressure, and demand-led need.

19. The MTFS identifies a potential funding gap of £27.1 million over its 2023-2028 term. The Council plans to achieve a sustainable financial position over the next 3 years. The MTFS only identifies high level approaches to address this shortfall, for example income opportunities and service redesign. **It now needs to develop and implement detailed operational service plans to bridge the gap. In doing so, it should ensure that it undertakes equality impact assessments, including Island Communities Impact Assessments where applicable.**

20. The council has a significant Strategic Reserve Fund of £188m which has accumulated as part of its Harbour Authority Account. It is available to support the wider activities of the council and is used as part of the annual revenue budget. The council approved a contribution from the fund of £6.35m for 2023/24. It intends to reduce such use throughout the period of the MTFS. The council also carried out a budget review and long-term forecast of the Strategic Reserve Fund which included setting a minimum balance of £231m. It has fallen below this level in 2022/23, primarily as a result of a fall in value of underlying investments.

21. Pressures on investment returns together with falling general fund balances make the current approach unsustainable in the medium term. **The council should carry out detailed analysis to develop a strategy for the sustainable use of the Strategic Reserve Fund taking into account its longer-term plans and commitments.**

22. The 2021/22 annual audit report recommended the council addresses recurring slippage in its capital programme, however this has continued in 2022/23. A capital overrun report presented to Policy and Resources Committee in September 2023 indicated an approximate 20 per cent (£6 million) underspend on the combined general /non- general fund capital programme of £30.2 million.

23. The MTFS notes that the capital programme for the future years is being developed and will be incorporated in the future revenue budgets to fully integrate the revenue and the capital budget process. The council delivery plan identifies the objective to finalise and approve the new capital programme in 2024/25.

24. The council reviewed its organisational structures in 2021/22, introducing five directorates and has developed a workforce plan, however it continues to face capacity pressures. It successfully recruited a permanent chief executive in January 2023, replacing the former interim chief executive of three years.

25. As a small islands authority, the council undertakes a comparatively wide range of responsibilities including harbours, ferry services and colleges. The MTFS identifies recruitment and retention as an area of key financial risk. This adds to its capacity pressures in delivering the scale of change needed to meet its strategic and financial objectives and deliver its ambitious plans for change in areas including renewable energy and green ferry services.

26. I look forward to seeing the progress the council makes in taking forward the recommendations from the auditor outlined in Appendix 2 of the AAR, and in the Improvement Action Plan outlined in Appendix 1 of the Best Value Thematic Report 2022/23 in due course.

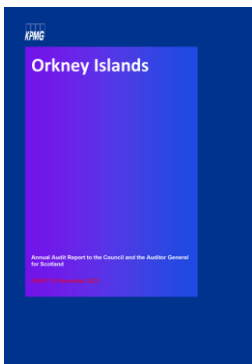
Appendix 1: 2022/23 Annual Audit Report

2022/23 Annual Audit Report

This report summarises the findings from the 2022/23 annual audit of Orkney Islands Council.

This Annual Audit Report comprises:

- significant matters arising from the audit of the council's Annual Accounts.
- conclusions on the council's performance in meeting its Best Value duties.
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
 - Financial management
 - Financial sustainability
 - Vision, leadership and governance
 - Use of resources to improve outcomes.



[2022/23 Annual Audit Report](#)

Orkney Islands Council

January 2024

Appendix 2: Best Value

[The Local Government in Scotland Act 2003](#) introduced a statutory framework for Best Value for local authorities. The Best Value duties set out in the Act are:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost); and, in making those arrangements and securing that balance, to have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development.
- to achieve break-even trading accounts, subject to mandatory disclosure
- to observe proper accounting practices
- to make arrangements for the reporting to the public of the outcome of the performance of functions.

Best Value

Orkney Islands Council



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

Purpose

1. This report was formerly known as the Secretary's report, but has been renamed to better reflect its purpose – namely, to provide an update on significant recent activity relating to local government.
2. Much of the content of this report is derived from the weekly digests of media and Parliamentary mentions, Parliamentary committee updates, consultations and other relevant news updates, which are provided to members by Audit Scotland's Communications Team and are available through the [members' SharePoint site](#).
3. The report is complemented by monthly updates on the activities of the Chair and the Controller of Audit, which are also standing items on the agenda.
4. This month's edition of this report is mainly focused on developments relating to the Scottish Budget and other general issues relating to local government finance. Other publications and updates in the past month, including Scottish Parliament Committee business, will be captured in the February edition of this report.

Recommendations

5. The Commission is invited to:
 - Note this report and consider any implications for its work programme.
 - Agree to the recommendations highlighted at the end of this report and advised verbally during the meeting, regarding responses to consultations.

Recent publications and engagement

6. The Commission has recently issued the following publications:
 - [Best Value in Dundee City Council](#) (30 November 2023).
 - *News release*: "**Dundee City Council is well-run, with a clear vision to address challenges** – Dundee City Council has shown effective leadership, good financial management and engagement with communities as it seeks to tackle long-standing issues. Reporting on its performance and progress is clear, with a focus on continuous improvement."
 - *Engagement statistics*: Initial stats were provided in the December edition of this report; updated figures are not yet available.

- *Media coverage:* The report was covered by [STV News](#) (online, and regional broadcast), [The Courier](#) and Dundee Evening Telegraph (online and print), [Scottish Housing News](#) and [LocalGov.co.uk](#).
 - [A renewed focus on the sustainability of social care](#) (blog; 14 December 2023).
 - *Engagement statistics (14 – 18 December inclusive):*
 - 164 website page views
 - 711 opens and 83 unique clicks on the email ‘mailshot’
 - 1,155 views and 70 engagements on LinkedIn and X
 - 358 further views of posts on X by partner organisations
 - *Media coverage:* Scottish Housing News [reproduced the blog on its website](#).
7. Updated and comparative statistics will follow in the February edition of this report. In addition, quarterly and annual download statistics for Commission publications are provided to supplement the regular monthly statistics. The figures covering the periods up to and including December 2023 will also be provided in the February report.

Media and Parliamentary monitoring

8. The Paisley Daily Express reported on “[Renfrewshire Council facing further scrutiny over Dargavel Primary School debacle](#)”, referencing the Controller of Audit’s Section 102 report.

Scottish Budget

Overview

9. The Deputy First Minister and Cabinet Secretary for Finance, Shona Robison, announced the Scottish Government’s 2024/25 Budget on Tuesday 19 December. Key points included:
- A new 45% ‘advanced’ tax band for earnings between £75,000 and £125,140, and an increase to the top rate of tax – on earnings above £125,140 – from 47% to 48%, and a freeze to the threshold for the ‘higher’ (42%) rate at £43,663.
 - Non-domestic rates frozen for premises valued below £51,000, and full rates relief for most hospitality businesses on the Scottish islands – but no other relief for retail, leisure or hospitality, unlike the 75% reduction granted to those sectors in England and Wales
 - An inflationary increase in the Scottish Child Payment, to £26.70 per week from April 2024 – less than the £30 per week that had previously been pledged
 - An additional £550 million for NHS boards – a 4.3 per cent rise in cash terms – and more funding for culture, police, fire and justice
 - Funding for housebuilding reduced by a third, from £565 million to £376 million
 - Capital spending cut by £170 million – according to independent analyses, this equates to a 6 per cent reduction in cash terms, and 4 per cent in real terms

Local Government funding

10. The Finance Secretary announced that the Council Tax freeze will be funded on the basis of a 5 per cent increase for all councils – amounting to £144 million.
11. This contrasts with the following:
 - COSLA’s estimate of £300 million that they said was needed to fully fund the freeze
 - Fraser of Allander Institute’s estimate of £330 million (including funding for cancellation of the multipliers that had been consulted on), based on councils’ 2023/24 increases
 - LGIU’s research, in which three quarters of respondents said they had planned for increases of 5-10 per cent, and 1 in 9 said they had planned for more than 10 per cent.
12. Separately, in relation to the Local Government Settlement, [initial analysis by the Scottish Parliament Information Centre \(SPICe\)](#) suggests a 5% real-terms increase to total revenue funding compared to the 2023/24 Settlement; in addition, SPICe says the proportion of this funding that is formally ring-fenced is also smaller than the previous year.
13. However, [COSLA’s Budget Reality document](#) indicates a cut to core revenue funding of £62.7 million in cash terms compared to what they had expected when taking into account specific grant funding that was expected to be baselined in (‘built into’) the Settlement. COSLA’s response to the Budget warned that it “will leave Council services at breaking point” and could result in “an inevitable shift to providing statutory services only”.
14. Specific lines of funding for local government announced in the Budget include:
 - £1.5 million one-off emergency fund to help councils write off school meal debt
 - Funding to enable social care, early learning and childcare workers in commissioned services to be paid at least £12 per hour from April 2024
15. On capital funding, SPICe and COSLA agree there is a significant reduction; COSLA says the Settlement delivers a cash cut of £54.9 million (across core and specific grant funding). The [Fraser of Allander Institute](#) reports that local government capital grants will be £150 million lower compared to the 2023/24 budget – a 21% real-terms cut.

Other aspects

16. Another significant aspect of the Budget announcement was that only plans for 2024/25 were published – in contrast to the Scottish Government’s previously stated intention, and the commitment in the Verity House Agreement, to provide multi-year spending plans.
17. Although the Finance Secretary had made comments in the media, prior to the Budget announcement, about the need for public service reform – suggesting that this would be a feature of the financial plans set out – there was no detail on this in the Budget document.
18. The Finance Secretary did, however, provide a progress update on the Public Service Reform programme to the Finance Committee, as part of her [response to the Committee’s pre-budget scrutiny](#) (see pages 20-23). This set out intended short-term actions, including:
 - All Scottish Government portfolios to lay out savings and reform plans, and set out bespoke savings targets to public bodies (not local government) by the end of March
 - “Pay metrics” for 2024/25 to be produced following the UK’s Spring Budget.

General analysis

19. Meanwhile, other independent analysis of the Budget has highlighted the following:

- The most significant real-terms changes in total (resource and capital) funding for each Scottish Government portfolio compared to the 2023/24 Budget are as follows: ([SPICe](#))
 - Social Justice: up 11%
 - Justice: up 11%
 - Rural Affairs, Land Reform and Islands: down 9%
 - Wellbeing Economy, Fair Work and Energy: down 8%

Specific areas receiving funding announced in the Budget include:

- Digital connectivity including the R100 programme (£47 million extra funding)
- Energy efficiency upgrades and clean heating systems (£358 million provided)
- Transition to a circular economy (£49 million funding announced)

Specific areas seeing substantial cuts include: ([SPICe](#) / [Fraser of Allander Institute](#))

- Affordable Housing Supply Programme (reduced by £196 million – meaning a 37% cut in two years)
 - Just Transition Fund (the allocation for which is cut by 75%)
 - Energy transition capital funding (down by around £30 million).
- Even though the funding for the Council Tax freeze is less than local government had hoped for, the £144 million being spent on this policy is 1.5 times as much as is being raised from the increases in income tax on high earners. ([Institute for Fiscal Studies](#))
 - The health budget is again receiving larger increases than many other spending areas – and the Scottish Government has explicitly stated that the decision to prioritise health spending means it is less able to offer support to the business sector. It's a similar story with social security – the Scottish Government plans to spend £1.1 billion more in this area than the funding it receives for it from the UK Government through the Block Grant Adjustment; this figure is forecast to rise to £1.5 billion 2028/29. ([SPICe](#))
 - Compared to original 2023/24 Budget plans, resource spending is set to increase by 6 per cent in cash terms, 4 per cent in real terms, largely funded by higher-than-forecast tax revenues and UK government funding. Stripping out social security, the real-terms increase is 2.2 per cent compared to the 2023/24 Budget. However, real-terms revenue funding for 2024/25 is set to be slightly less than the latest position for the current year, and slightly less than had been expected a year ago. ([Institute for Fiscal Studies](#))
 - On income tax, the Scottish Government is applying inflationary increases to the *bands*, not the *thresholds*, for the Starter (19%) and Basic (20%) rates – in other words, it is the respective amount of income above the personal allowance that is taxed at each rate that is being increased by inflation, rather than the income thresholds at which the Basic and Intermediate (21%) rates begin to apply. ([Fraser of Allander Institute](#))

Local government finance issues

20. Prior to the Budget, COSLA had run a Budget Lobbying campaign on the theme of '[Councils are Key](#)', which highlighted the central role of councils in supporting local communities and delivering on the shared priorities – stated in the Verity House Agreement – of tackling poverty, supporting a just transition and providing sustainable public services.
21. COSLA's [main campaign document](#) included examples of councils and council services facing particular financial challenges, and warned that the cases of Birmingham and Nottingham city councils 'effectively declaring bankruptcy' could become a reality for Scottish councils if Scottish Government funding did not match growing cost pressures.
22. The main lobbying campaign announcement was supplemented by further statements on the following specific policy areas:
 - [Social care](#)
 - [Climate change](#)
 - [Council Tax and workforce](#)
 - [Tackling poverty](#).
23. Related to this, the Local Government Information Unit (LGIU), a membership organisation for local government, published a report on its research on the [State of local government finance in Scotland](#) – see the summary briefing at Appendix 1 to this report for full details.
24. Elsewhere, the Local Government Association released [results from a new survey](#) in which 18 per cent of council leaders and chief executives in England said it's 'very' or 'fairly' likely that their chief finance officer will need to issue a section 114 notice this year, while just over half are not very confident of funding statutory services to the end of 2024/25. Nearly two thirds expressed disappointment at a lack of support provided in the Autumn Statement.
25. Meanwhile, the Scottish Government and COSLA jointly issued an [update on progress towards a new Fiscal Framework](#) – in line with the commitment in the Verity House Agreement. The update states that, while there is more work to do, a draft framework is being produced, with some of it already being put into practice including improved engagement ahead of the Scottish Budget, and joint working on new local tax powers.
26. The Local Government, Housing and Planning Committee published its [Stage 1 report on the Visitor Levy \(Scotland\) Bill](#). The majority of members (all excluding Conservative MSPs Miles Briggs and Pam Gosal) support the principles of the Bill, stating that it is unlikely to deter visitors and has the potential to bring significant benefits to visitors, residents and the tourism sector, and welcoming the flexibility for councils to decide whether and how to apply the levy. The Bill's Stage 1 debate in Parliament is scheduled for Tuesday 16 January.

Policy area updates

National Care Service

27. The Scottish Government (SG) has provided detailed updated information on its plans for the National Care Service (NCS). This follows agreement with COSLA that accountability will be shared between SG, the NHS and local government, with functions, staff and assets no longer intended to be transferred out of local authorities.

- 28.** SG has also produced a revised Financial Memorandum, following criticism of the original version published alongside the NCS Bill in June 2022. The new version provides updated estimates for costs associated with the Bill as introduced, and separately estimates the costs that would arise under the revised plans for the structure and governance of the NCS.
- 29.** The information was provided in letters from the Minister, Maree Todd, to two Committees – the Health, Social Care and Sport Committee and the Finance and Public Administration Committee – and included responses to questions and concerns raised by each Committee. See Appendix 2 for a full summary of the proposed changes and revised costs.
- 30.** Related to the NCS, CELCIS published the [concluding report of its Children’s Services Reform Research](#), carried out at the request of the Scottish Government to form part of the evidence base for whether children’s services should be included in the NCS. The report concluded that structural changes are not sufficient in themselves to achieve improvement, that evidence on the impact of integration on outcomes is inconclusive, and that the current integration landscape would benefit from being simpler and more consistent.

Education

- 31.** Results from the latest Programme for International Student Assessment (PISA) study showed performance in Scotland’s high schools has slipped, albeit in line with global trends and in the wake of the Covid-19 pandemic. The PISA 2022 results for Scotland show:
- Reading performance fell from a score of 504 in 2018 to 493, but this is above the OECD average of 476, and higher than 24 other countries; Scotland ranks below England but above Wales and Northern Ireland in reading.
 - For both maths and science, Scotland’s scores also fell, but were similar to the OECD averages; Scotland ranks below England and Northern Ireland but above Wales in both.
- 32.** Meanwhile, official 2022/23 statistics on school pupils’ Achievement of Curriculum for Excellence levels in literacy and numeracy were published. The statistics, based on teacher judgement, report on the percentage of school pupils in P1, P4, P7 and S3 who have achieved the expected CFE Levels relevant to their stage. The statistics showed:
- In both literacy (73%) and numeracy (80%), the proportion of primary school pupils achieving the expected Level was the highest on record. For S3 pupils, the respective figures (88% and 90%) were both up on 2021/22 and close to the highest recorded.
 - The poverty-related attainment gap has closed slightly. For both literacy and numeracy, the gap between the proportion of primary pupils from the most and least deprived areas who achieved the expected level narrowed in 2022/23 compared to 2021/22 – to the smallest on record for literacy, but still slightly wider than previously for numeracy.

Updates on previous queries

- 33.** At the December meeting, a suggestion was made in relation to the Care Leaver Payment consultation. However, having discussed with Audit Scotland colleagues, the Secretary has agreed that there is insufficient material on which to base a response to this consultation. In future, such advice will be sought in advance of Commission meetings, in line with the new process for handling and responding to consultations, detailed below.

- 34.** Meanwhile, a joint response by the Commission, the Auditor General and Audit Scotland has been submitted to the Health, Social Care and Sport Committee's call for views on the Social Care (Self-directed Support) (Scotland) Act 2013. The response will shortly be available to read [on the Audit Scotland website](#).

Consultations

- 35.** As of January 2024, we are implementing a new process for handling and responding to consultations and calls for views, in line with guidance recently agreed with Audit Scotland colleagues. The key steps in this process are as follows:
- When a consultation (or call for views) opens, it is recorded on a consultation log by a member of Audit Scotland staff, who notifies the Policy Manager to the Commission and liaises with them to produce a short proposal on whether or not to respond
 - The Secretary to the Commission reviews and approves the proposal
 - This report will include a recommendation on whether or not to respond to the consultation, for the Commission to agree or disagree
 - In the event of a decision to respond to the consultation, Audit Scotland staff draft a response and liaise with the Secretary on the most appropriate means of gaining Commission approval; this will be influenced by:
 - the degree to which the response is purely factual, or provides comment
 - the sources of evidence used
 - the deadline for submitting the response.
 - Where a response is approved other than by the full Commission, the Secretary shares the response with all members via email for their information.
- 36.** The following Scottish Government consultations were recently opened:
- a) [Wellbeing and Sustainable Development \(Scotland\) Bill](#) (closing date: 14 February 2024)
 - b) [Social Housing Net Zero Standard in Scotland](#) (closing date: 8 March 2024)
 - c) [Proposals for a Heat in Buildings Bill](#) (closing date: 8 March 2024)
- 37.** At the time of writing the report, a recommendation had not yet been made regarding the consultations (b) and (c) above. The Secretary will advise of any recommendation verbally during the Commission meeting.
- 38. In accordance with the above process, the Commission is invited to:**
- Agree that a response should be submitted regarding the Wellbeing and Sustainable Development Bill, with approval of the response delegated to the Chair and Secretary
 - Agree to any recommendations regarding the other consultations, advised verbally by the Secretary during the meeting.

Appendix 1 – Briefing on LGIU ‘State of local government in Scotland’ report

The Local Government Information Unit (LGIU) recently reported the results of a survey of Council Leaders, Chief Executives and Directors of Finance in Scotland.

The report – [the state of local government finance in Scotland](#) – replicates similar work the LGIU has regularly carried out in England, and was intended to complement the Commission’s work with evidence of the mood and opinions of those responsible for finances within councils. More than 75% of councils were represented in the 42 responses.

This briefing analyses the key findings from the research and compares them with the findings from the most recent survey of councils in England, publishing in March 2023.

Behind the headlines

The report received widespread media coverage for its headline finding that ‘a quarter of councils in Scotland face effective bankruptcy’.

This was based on 24% of respondents, representing 8 councils, agreeing with a statement that “there is a danger that financial constraints will put your authority in a position where you no longer have enough funding to fulfil your statutory duties in 2024/25”.

While expressed (via LGIU’s press release) as a statement of fact, the actual finding is about the *opinions* of those involved. Nevertheless, it adds to a narrative – bolstered by COSLA’s budget lobbying messaging – about the dire prospects for council finances next year.

A comment left by one respondent in the survey said:

“It is just a matter of time before the first Scottish council goes bankrupt.”

Financial sustainability

Confidence in the sustainability of council finances in Scotland is critically low:

- Only 1 respondent said they were ‘quite confident’ about their council’s finances.
- Two thirds said they were ‘not at all confident’; the rest said ‘not very confident’.

By comparison, 1 in 7 respondents in England said – at the start of 2023 – that they had confidence in their council’s financial sustainability, and only 7.5% said there was a danger of their council being unable to fulfil their statutory duties. This aligned with the reality, whereas there is quite a disparity between the mood in Scotland and the evidence from audits.

Alongside this question, several Scottish respondents left comments such as:

“I have never been more concerned [about] capacity to deliver... services”
“We are genuinely doomed...”

Current financial pressures

There was widespread agreement on the most pressing issues in council finances:

- Inflation (100% of respondents)
- Ring-fencing of local authority budgets (97%)
- Recruitment of necessary staff (97%)
- Impacts of demographic change (95%)
- Service pressures from cost-of-living crisis (92%).

There is a notable contrast here with England, where only 37% of respondents said ring-fencing was a cause of pressure – this issue is largely specific to Scotland.

Comments included:

“Rather than purely ring fencing in Scotland, the issue is over directed spend particularly in funding to IJB’s and teacher numbers”

“Core funding is being hollowed out to fund Scottish Government priorities (but they are not being fully funded either).”

Council tax

All respondents had planned to raise council tax, often by a significant amount – three quarters had planned 5-10% rises, and 1 in 9 had planned an increase of more than 10%.

Unsurprisingly there were various comments criticising the council tax freeze announcement – in particular, respondents highlighted the knock-on effect for future years and the likelihood of the corresponding funding from the Scottish Government being insufficient

“A freeze does not just affect the immediate year but rather impacts the tax base in perpetuity - once lost it can never be regained.”

“We are aiming to move [upwards] towards the Scottish average over a number of years. The freeze is particularly unwelcome in that context. The compensating payment will inevitably fall short of our likely preferred increase.”

Balancing the budget

Nearly every council is having to use more than one of the other options listed below, and more than 90% of respondents said they were taking 3 or more of these measures:

- Cutting spending on services (100% of respondents)
- Increasing fees and/or charges (97%)
- Spending reserves (89%)
- Increasing commercial activity (67%)
- Increasing borrowing (45%)

This is similar to the results from England, except that only 52% of respondents there said they would be cutting spending on services, with more emphasis placed on revenue raising.

Cuts to council services

Most councils will be reducing spending on a large number of services, including many that we have identified as having seen their performance decline in recent years:

- Back-office corporate services (81% of respondents)
- Parks and leisure, Education services, Business support (64% for each)
- Highways and transport, Arts and culture (60% for each)
- Libraries, Adult social care, Waste collection (50-55% for each)

Meanwhile, 76% of respondents agreed with the statement that “the 2024/25 budget will lead to cuts in frontline services which will be evident to the public” while only 24% said residents are currently able to access the same level of frontline service as this time last year.

Short-term and long-term service pressures

The table below lists the services that councils say are causing the greatest short-term and long-term pressure on the budgets.

Short-term	Long-term
Adult social care (34%) Children's services (34%) Education (25%)	Adult social care (79%) Education (10%)

What this shows is that councils are making cuts even to those services that are already most under strain and which present the greatest long-term challenges in terms of meeting demand – short-term reductions are having to be made that are contrary to long-term planning.

Analysis for England is complicated by the different tiers of local authorities, but adult social care (also the most common long-term pressure), children's services and education rank highly here too, along with housing and homelessness – the most common short-term pressure.

Central-local government relations

Councils' relationship with Scottish Government is critically poor – few respondents are happy with the progress made by SG in considering and involving local government in decisions, and no-one is positive about the delivery of a sustainable funding system.

- Only 10% of respondents thought the Verity House Agreement had led to improved communication with SG; 45% disagreed with this statement, with the council tax freeze being the most commonly cited reason.
- Just 1 person said they felt SG had listened to local government's needs in forming the budget; comments included: *"They may well listen but they don't act on that listening"*.

Most said it was too early to judge the VHA, but the council tax freeze was not a promising start.

There was also very little satisfaction with the progress being made on national policy areas, and significant pessimism about whether SG would prioritise issues and meet funding needs. For example, only 11% are happy with progress on implementing a long-term adult social care funding strategy, and just 23% are confident of future prospects on that issue.

Fiscal devolution

Finally, councils were asked which three measures for increasing flexibility in revenue raising and spending they think would have the greatest positive impact on their finances:

- Freedom to raise council tax (71%)
- Removal of ring-fencing (57%)
- Local share of income tax (33%)

Among other choices, 19% thought a tourism tax would have impact – likely to reflect the varying level of expected return from this measure in different council areas – while just 10% thought having more freedom to levy other local taxes would make a difference.

Appendix 2: Updates regarding plans for the National Care Service

In early December 2023, Maree Todd (Minister for Social Care, Mental Wellbeing and Sport) [wrote to the Health, Social Care and Sport Committee](#) (HSCSC) and to the Finance and Public Administration Committee (FPAC) to provide each with relevant updates on the Scottish Government's plans for the National Care Service (NCS).

The [information provided to the FPAC](#) included:

- Details of proposed changes to structures and governance following negotiations with COSLA, and responses to concerns raised by the FPAC in its [Stage 1 report](#) (18 pages)
- An updated and revised Financial Memorandum showing costs associated with two alternative new scenarios, as detailed below (58 pages)
- A Programme Business Case as requested by the FPAC (58 pages).

This briefing summarises the key points from the comprehensive update provided to the FPAC.

Key changes

There are 3 main changes that the Scottish Government (SG) intends to reflect through amendments to the [NCS Bill](#) at Stage 2 of the Parliamentary process:

- Reverting to **shared accountability**, as agreed with COSLA –
 - local authorities “will retain responsibility for all current functions and the delivery of social work and social care services” and
 - “there will be **no transfer of staff or assets**”
- **Reform of Integration Authorities** (IAs) instead of the creation of local Care Boards
- A joint NCS National Board – to which IAs will be accountable – with responsibility for:
 - Management of the shared accountability framework
 - High-level functions such as standards and guidance, performance monitoring, improvement, data analysis, and national commissioning and procurement

However, SG has also outlined its intentions with regard to:

- Powers for Scottish Ministers to provide direct funding to reformed IAs
- Exploration of requiring an **independent Chair** of each reformed IA, instead of the Chair being a representative of either local government or the NHS
- Use of powers in [the existing \(2014\) legislation](#) that have not yet been used in practice, such as allowing IAs to **directly employ Chief Officers** and other staff
- Enabling greater cooperation and pooling of resources across IA boundaries

Significantly, **full implementation of the NCS has been delayed by 3 years**, from the initial target of 2025/26 (by the end of the current parliamentary term) to 2028/29.

Revised costings

The revised Financial Memorandum (FM) provides updated costs under two different scenarios:

1. The Bill as introduced being taken forward with no significant changes – simply updating the costs on the basis of events since the original FM was produced.
2. The revised plans set out above – in particular, not establishing local care boards or transferring staff and assets, resulting in much lower costs associated with the NCS Bill.

As scenario 2 has, in broad terms, been agreed with local government, it is likely that these are the costs that can now be considered to be associated with the NCS Bill as it moves forward. The costs of scenario 1 are provided for comparison purposes and to address some of the concerns raised by the FPAC in its earlier scrutiny of the original FM.

The revised FM indicates:

- The changes intended to be made at Stage 2 are expected to save between £249 million and £1,276 million in total between now and 2031/32, compared to scenario 1.
- Almost half (£581 million) of this upper estimate for costs saved is accounted for by the saving resulting from not establishing and running up to 31 local care boards.
- The costs associated with transferring around 75,000 local authority staff (under scenario 1) would cost £270 million per year at a ‘steady state’ following full implementation.
- Proposed changes to IAs (for which estimated costs have been provided) include:
 - Provision for IAs to directly employ Chief Officers, Chief Finance Officers and a small, hosted team who will deliver HR, payroll and associated functions.
 - Costs to reflect the remuneration of additional lived experience members on reformed IA boards, and grant support for those members to ensure their full participation is not limited by caring responsibilities.
 - Funding to support employment and engagement work of new locality staff, more training for board members, and providing all documents in easy-read format.
- Creation of the new NCS National Board will be modelled on the basis of creating a new public body with its own operational staff complement, at an annual cost of £4-6 million.

Legislative amendments

The Minister’s letter to the HSCSC in particular is clear that a number of substantial changes will need to be made to the Bill at Stage 2 to reflect the key changes described above.

In addition, SG now plans to introduce amendments to the Public Bodies (Joint Working) (Scotland) Act 2014 as a more proportionate approach to achieving the intended reform.

Some provisions are expected to remain in some form, though. The National NCS Board is intended to have powers of intervention, for compulsory purchase of land, and for supporting training and research, while the transfer of functions between partners will also be enabled – including to support public service reform and innovations such as a Single Authority model.